Wait-and-See Approach May Be Best For Emerging Markets Now

By BEN SCHROCK, INVESTMENT ADVISER REPRESENTATIVE
B.A. Schrock Financial Group | January 2017

Yes, markets truly are global now, and yes, investors need to have some exposure, but they can't ignore the risk of political upheaval globally, and here at home as well.

While U.S. investors nervously ponder what effect this new administration will have on domestic markets, the thought of putting money into emerging markets has no doubt become even more daunting.

Should we embrace or avoid them? I sure wish I had a crystal ball to tell me the answer. But that's really the case with any kind of investing, isn't it? We can't predict the future.

The anxiety is a bit sharper, though, when it's something you really don't know much about. Most investors probably have some exposure, if their goal is a diversified portfolio. They may have heard the acronym BRIC, for Brazil, Russia, India and China — the main emerging marketplaces where most investors tend to be. Their adviser may even have mentioned South Africa, Turkey or Indonesia, and what the possibilities are there.

But that's not the same as putting your money into a well-known U.S. stock or mutual fund.

Emerging markets have picked up momentum over the past couple of years because investors are seeking the yield and return they're not getting domestically or in other developed marketplaces. That search has taken them to alternative options offshore.

It's also the result of a growing realization that we really are in a global marketplace now. We can wake up in the morning, turn on the news and see what the European marketplaces are doing, or what the Asian marketplaces have done. We have all this information at our fingertips, and it's opening up all kinds of opportunities for investors.

But with the emerging markets there can be significant risk — particularly in areas that don't have the same political infrastructure we have. There's often instability in countries considered emerging marketplaces, and frequent changes in leadership make it difficult to sustain certain policies and support long-term growth.

This added unpredictability can scare investors away or, at least, make them hesitant. Investors traditionally don't like uncertainty, and emerging markets can be a roller-coaster ride.

Which takes us back to the Trump administration. No one is sure what will happen to the markets in the next four years — for better or worse, Donald Trump's an unknown — and that applies to foreign markets, as well. Based on the campaign, there are growing concerns about the possibility of protectionist strategies and how that could affect trade. And if interest rates increase and the dollar strengthens, that could have an impact on emerging markets as well.

I typically tell clients to step back and take a wait-and-see approach, gauging what to do next based on the policies our new president and his staff put in place and what effects they will have on these other countries.

Overall, I think exposure to emerging markets can be a good thing. It can add some diversification to your portfolio — which is always a goal. Many times in recent years, emerging market equities were the best or second-best performers. (They've also been the worst a couple of times.)

You certainly don't want to be overexposed — but you could say that about any investment.

It's an interesting time to be in the market, with so many options available and yet so much uncertainty. That's why it's important to talk to your adviser and to be sure you're on the same page regarding what is a good fit for you and your financial strategy.

Ben Schrock is an Investment Adviser Representative, Insurance Professional and president of B.A. Schrock Financial Group, an independent, full-service financial advising firm in Wadsworth, Ohio. He has more than eight years' experience in the insurance and annuity industry and holds his life and health insurance licenses in Ohio and West Virginia.